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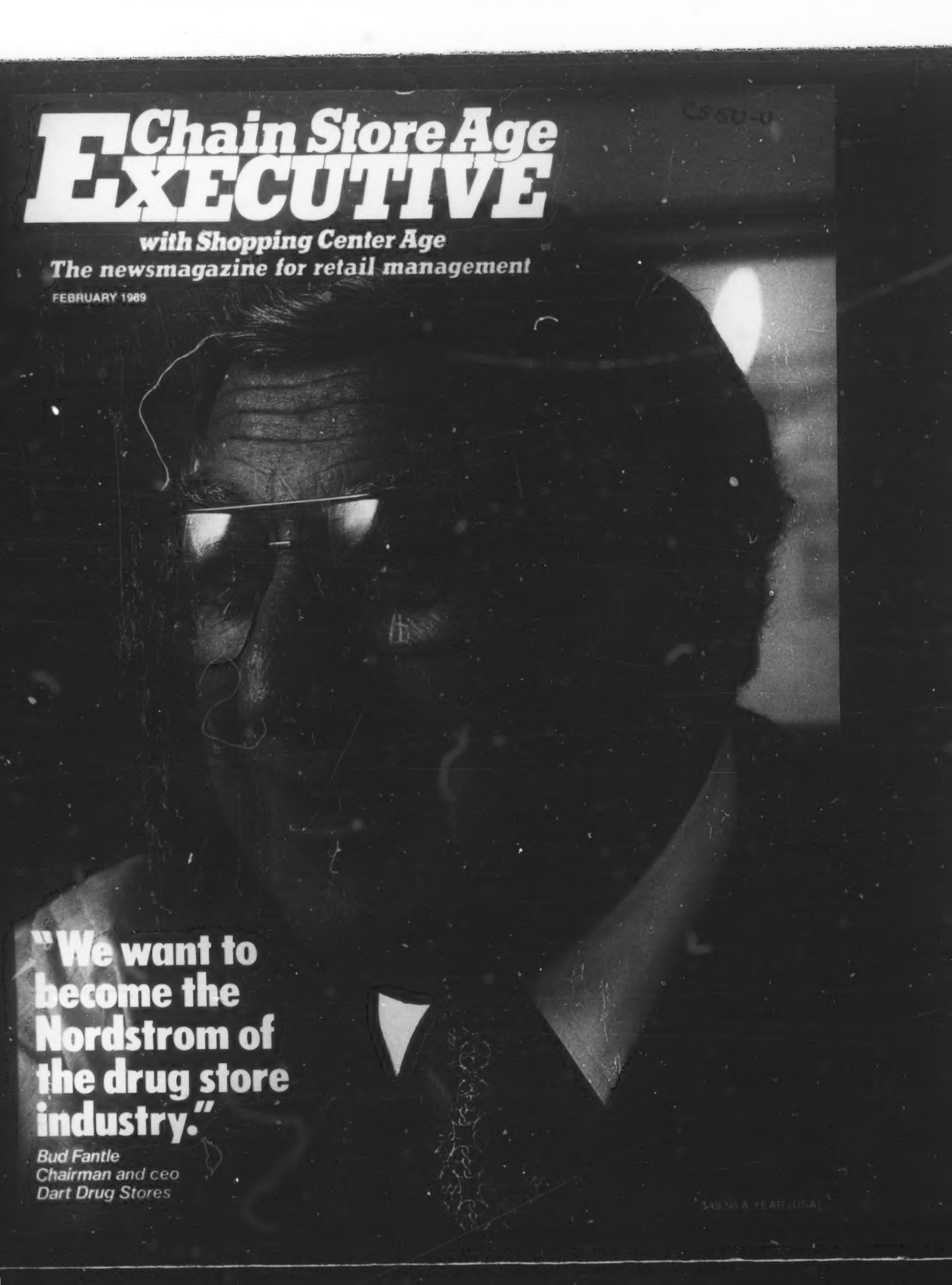
Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

FEBRUARY 1989



"We want to become the Nordstrom of the drug store industry."

Bud Fantle
Chairman and ceo
Dart Drug Stores

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Vol. 65, No. 2/February 1989

CONTENTS

NEW DESIGN FOR WILLIAMS-SONOMA

Williams-Sonoma's new San Francisco flagship store positions it as a comprehensive merchant of home cooking and entertainment. The two-level 16,000-sq.-ft. Union Square store is three times bigger than any of the chain's other locations. Opened only months ago, weekly sales already total $150,000. 32

DEPARTMENTS

Profile: Sheldon "Bud" Fantle is the Mr. Fixit of the drug store industry. His challenge now is to work his magic with Landover, Md.-based Dart Drug, a low-priced promotional chain he hopes to turn into an upscale emporium. 14

Government: The FTC has lodged a complaint against book publishers, alleging that their pricing strategies favor chains over independents. The complaint may be the tip of an iceberg that could affect the way *all* chain retailers buy products and services. 18

Strategy: D'ags Fresh Market is a test store aimed at the Manhattan shopper walking home from work. It's small, convenient, and merchandised to compete with the increasingly popular Korean fruit and vegetable stands. 20

Security: Lionel Leisure has gone where no toy supermarket has dared to tread—midtown Manhattan. Business is brisk, but the real hurdle is controlling shrink. 36

Human Resources: Incentive pay plans are replacing wage hikes. . 78

Finance: Credit card files can be a powerful source of marketing information. 86

December Sales: Christmas sales came in better than anticipated, leaving retailers hoping for higher than expected profits. 90

Productivity Report: Monthly sales distribution percentages by major retail segments. 90

SHOPPING CENTER AGE

Small Center Development: Special supplement 1A

Power centers are the latest challenge facing small centers. 3A

Petrie Stores is part of a growing list of specialty store operators who are growing through strip center locations. 6A

Renovations of small centers are taking on an upscale look but can be blessings in disguise. 9A

Catonville Plaza was a troubled center until Tri-Land Properties turned it around. 12A

On the Level 15A

Downtown development *is* different from suburban retail. Downtown retail developments have denser population bases but often they cannot be as targeted as their suburban counterparts. 55

Tower City Center, a Forest City Development, will be kept hopping by the Rock and Roll Hall of Fame. 59

Shopping Center Age News . . . 60

Development activity 62

RETAIL TECHNOLOGY

Debit cards may be a wave of the future but checks, cash and credit cards are still the preferred modes of payment. 67

What's in Store 76

From the Editor's Desk 6

Perspectives 11

People 80

New Equipment & Services . . . 83

Advertising Index 89

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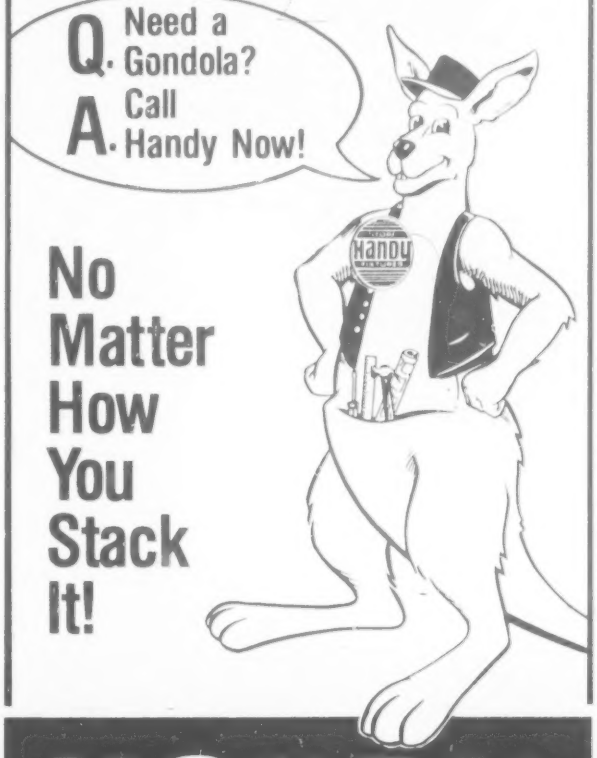

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DEBIT CARDS, EFT STILL GRASPING FOR TOEHOLD

CHECKS, CASH PREFERRED PAYMENT METHODS, SAYS SURVEY

Debit cards and electronic funds transfer are technologies still in search of a market. So says a study by the Payment Systems Education Association (PSEA). The vast majority of customers, according to the survey, prefer to pay for goods and services with checks, cash and credit cards.

Nearly three-quarters (72%) of consumers choose checks as their preferred method of payment.

Twenty-one percent prefer cash. Five percent choose credit cards.

Only 2% prefer electronic payment systems, such as debit cards.

At grocery stores and gas stations, says the survey, where debit card promotion has been strongest, few customers are using the new technology.

Only 2% report using a debit card at a supermarket, while 98% say they never use debit cards for grocery purchases.

Debit cards, such as bank automatic teller machine (ATM) cards, automatically subtract payments from a customer's checking account right at point-of-sale.

"There's no advantage to the consumer with a debit card," says David G. Meyers, PSEA president.

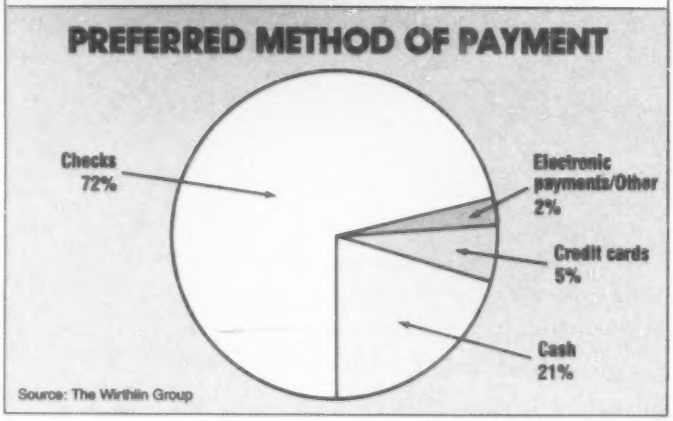
"You still have to record the purchase in your ledger, and you lose the float you get with checks," he says.

According to the study, only 8% of those surveyed report sometimes using electronic funds transfer to pay bills, such as insurance and mortgage payments. Ninety-two percent say they never use EFT.

With EFT, payments are done automatically by debiting a customer's bank account and crediting a vendor's account without a paper exchange.

The study was conducted for the PSEA by The Wirthlin Group, a market research company. The survey measured payment habits of 1,000 households and has a confidence level of plus or minus 3%.

The PSEA is an association of check acceptance companies, check printing companies, paper manufacturers and envelope producers.



According to the PSEA study, checks are preferred by all demographic groups, but are most popular with women (75%), those over 25 years old (75%), married people (77%), those with incomes between $30,000-$50,000 (80%) and those with at least some education beyond high school (75%).

Credit cards, in contrast, are preferred by a slightly older (35-54), better educated (60% college graduates) and better paid (50% earn more than $50,000) group.

The number of consumers choosing debit cards is too small to gauge demographic trends.

Not everyone agrees with the survey results, however.

"The study makes the debit card a dinosaur before it even starts," complains Bob Heard, marketing vp for Dallas-based Shared Financial Systems, a software provider for retail and banking debit card systems.

Heard notes that debit card transactions at point-of-sale grew 52% last year.

Debit-only terminal sales, he says, increased 11%. Installation of combined credit/debit/electronic draft capture terminals, Heard says, gained 29% in 1988.

That heady growth, however, adds up to only a fraction of the number of annual transactions at point-of-sale.

But even a small number of debit card transactions, explains Bonnie Van Overbeke, vp-MIS for Tampa, Fla.-based Kash N' Karry supermarkets, can have a significant effect on profits.

The 117-unit grocery chain started a four-store test of debit cards with First Florida Bank in March 1988.

In a typical Kash N' Karry store, Van Overbeke says, 6% of transactions now use debit cards. This compares to 31% for checks and 61% for cash.

At the same location, debit cards are capturing 9% of dollar sales, compared to 84% for checks and 7% for cash.

Kash N' Karry expects to place debit cards in about half of its stores, targeting areas where ATM card penetration is highest.

The most likely customer to use a debit card, Van Overbeke says, is a

solid middle-income family.

Women use the cards more frequently than men, and university students like using debit more than any other demographic group, she says.

Other benefits: Debit cards do more for the Florida supermarket chain than just raise the average sale and give the grocer immediate access to cash.

Transaction cost to the retailer for a debit card transaction is significantly lower than for a processing a check. On the average, it costs retailers 15¢ more to accept a check for payment than to process a debit card transaction.

Decreasing the amount of tender time was another one of Kash N' Karry's original goals going into the debit card test.

One promotion offered a dozen eggs to customers using debit cards

Van Overbeke says that shorter tender times increase each cashier's productivity and also decreases the customer's wait at the point-of-sale.

She says that tender time with a debit card takes less than 12 seconds. This compares to a nationwide average one minute it takes a customer to write a check, she says.

"If we can get a customer to use a debit card twice," Van Overbeke says, "then she's hooked."

Kash N' Karry has tried a number of incentives to get customers to use debit cards at the supermarket chain.

One recent promotion offered a free dozen eggs to customers who proffered a debit card at checkout.

In addition, the grocery chain produced a video presentation that explains the benefits of debit cards to customers. Originally, it placed monitors in aisles, later moving the television screens directly to the point of sale.

Obstacles: Marketing electronic funds transfer technologies will be the key to their ultimate success or failure.

"The debit card implies a change in human behavior," explains Shared Financial Systems' Heard.

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"Customers have been using checks for years. If there is a change, there also had better be a benefit. It's a marketing issue, not a technological one," he says.

Many customers do not even know that their bank ATM card is a debit card, Heard explains. Those that do understand, often do not know their personal identification numbers.

A bigger problem is a lack of a clear consumer demand for debit cards.

Three years ago, a study by Torrance, Calif.-headquartered Benton International pegged consumer apathy as the No. 1 obstacle to debit card implementation. Little has changed in the intervening years.

High telecommunications charges, also tagged as a major debit card obstacle in the 1986 Benton International survey, are an even greater threat now than three years ago.

Bankers and retailers, meanwhile, continue to haggle over who pays for what in debit card systems.

Often, representatives from the two industries do not even share the same language.

Point-of-sale, Heard explains, means something entirely different to the banker, the retailer and the customer.

To financial institutions the term refers to a retail payment process. To the retailer and consumer, it means a place in the store.

In addition, retailers complain that the banks do not fully comprehend the importance of marketing the new technologies.

"Banks are not very good at marketing," complains Van Overbeke.

Despite the resounding success of some debit card programs, most significantly at Lucky Stores in California, ARCO's am/pm convenience stores, Vons and Mobil, differing technical standards have the potential to slow down debit card expansion.

Particularly troubling to some is the lack of standards for data encryption and message formats. And unlike the retail community's VICS standards, each debit card provider is moving in its own direction.

Despite continuing problems, inroads by debit card technology seems permanent, even if growth has not been explosive.

"We will never have a cashless society, and we will always have checks," says Heard. "Even though," he says, "the debit card is far from extinct." ■

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DEC. SALES SUPPORT QTR.

Buttressed by better than anticipated Christmas sales and tight inventory controls, retailers are expected to produce higher earnings for the quarter which ended last month.

Though buying peaked into its now traditional frenzy in the days before Christmas, shoppers found fewer markdowns. The 1988 holiday season may well be the beginning of a weaning process away from last minute shopping.

Fourteen of the 20 companies tracked by *Chain Store Age Executive* recorded double digit sales increases. More significantly, all but two chains posted comparable store sales increases that exceeded the inflation rate.

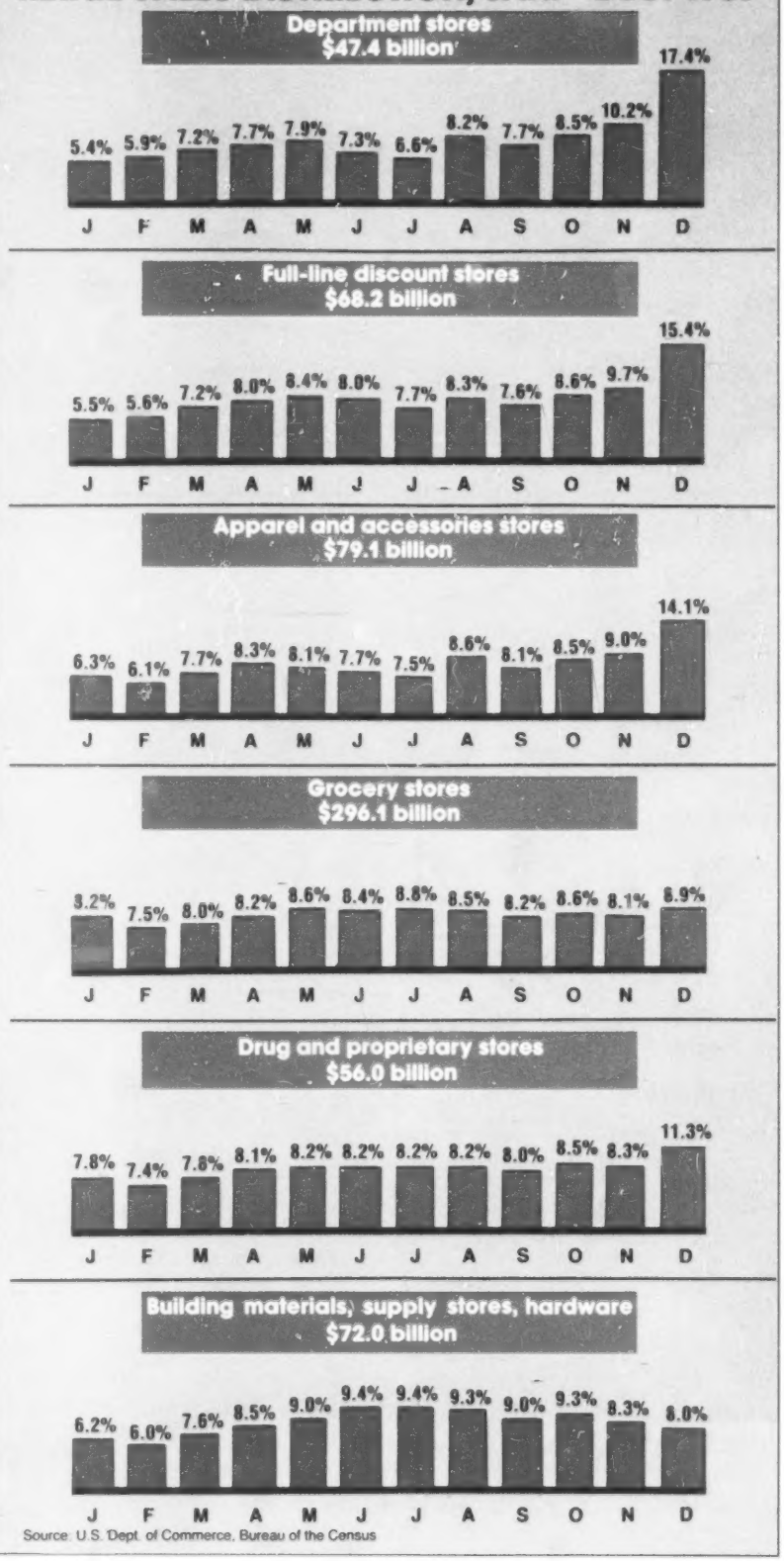
Of course, compared to last year most retailers could expect favorable figures. The Limited saw a 28% same store sales boost, further evidence of a rebound.

Sears produced the highest monthly sales volume in its 102-year history. "The results are especially gratifying because merchandise markdowns were below last year's level," says Michael Bozic, chairman and ceo of Sears Merchandise Group. While Sears advertised more heavily than in any past season, it did not liquidate inventory in anticipation of its everyday low pricing strategy, a spokesman reports.

Company	Dec. '88 sales (in millions)	% change total	% change comp. stores
Sears	$4,609.4	+ 12.1	+ 6.4
Penney	2,585.0	– 1.2	– 3.6
Ward	803.6	+ 7.6	+ 6.3
Woolworth	1,374.0	+ 16.9	+ 9.3
K mart	4,577.9	+ 10.7	+ 6.8
Wal-Mart	2,987.0	+ 31.1	+ 14.0
Dayton Hudson	2,240.0	+ 12.6	+ 6.6
Ames	970.2	+ 186.5	+ 9.1
Hills	309.8	+ 16.9	+ 8.0
Rose's	208.8	+ 10.7	+ 5.4
Dollar General	80.5	+ 9.1	+ 9.8
May	1,771.3	+ 30.0	+ 10.0
Carter Hawley Hale	520.9	+ 8.2	+ 7.2
Marcantile	426.3	+ 11.1	+ 8.9
Neiman-Marcus Group	231.5	+ 20.1	+ 12.2
Carson Pirie Scott	217.0	+ 13.6	+ 4.3
Limited	738.2	+ 38.9	+ 28.0
Circuit City	312.0	+ 20.6	+ 7.0
Best Buy	86.0	+ 9.0	+ 7.0
Walgreens	626.4	+ 9.0	+ 8.2

Source: Company reports

RETAIL SALES DISTRIBUTION, JAN.—DEC. 1987


Department stores
$47.4 billion
5.4% 5.9% 7.2% 7.7% 7.9% 7.3% 6.6% 8.2% 7.7% 8.5% 10.2% 17.4%
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Full-line discount stores
$68.2 billion
5.5% 5.6% 7.2% 8.0% 8.4% 8.0% 7.7% 8.3% 7.6% 8.6% 9.7% 15.4%
J F M A M J J A S O N D
Apparel and accessories stores
$79.1 billion
6.3% 6.1% 7.7% 8.3% 8.1% 7.7% 7.5% 8.6% 8.1% 8.5% 9.0% 14.1%
J F M A M J J A S O N D
Grocery stores
$296.1 billion
8.2% 7.5% 8.0% 8.2% 8.6% 8.4% 8.8% 8.5% 8.2% 8.6% 8.1% 8.9%
J F M A M J J A S O N D
Drug and proprietary stores
$56.0 billion
7.8% 7.4% 7.8% 8.1% 8.2% 8.2% 8.2% 8.2% 8.0% 8.5% 8.3% 11.3%
J F M A M J J A S O N D
Building materials, supply stores, hardware
$72.0 billion
6.2% 6.0% 7.6% 8.5% 9.0% 9.4% 9.4% 9.3% 9.0% 9.3% 8.3% 8.0%
J F M A M J J A S O N D

Source: U.S. Dept. of Commerce, Bureau of the Census